

Attention: Senate Committee
Competition within the Australian banking sector
Submission by Richard Talbot

Dear Senators

Thirty years of privatization and demutualization have now come home to roost, as was demonstrated recently when all four major banks upped their mortgage interest rates, almost in unison, by more than the November Reserve Bank rate increase of 0.025 per cent.

It is time the federal government and the Opposition stopped talking about how they might tackle the banks ripping of their customers and to act to reduce their power.

How?

By setting up another government-owned bank to act as a brake to the soaring interest rates, excessive profits earned by banks, egregious fees and the excessive remuneration packages paid to our bank CEOs. We need another Commonwealth Bank, before it was privatized and joined the other shareholder-owned banks fleecing their customers.

There's only one way to create serious competition to such a strong banking cartel: do what Prime Minister Andrew Fisher did in 1911 when he set up the Commonwealth Bank of Australia as a government-owned competitor. We need to set up another similar bank.

For your consideration I include this article adapted from *The Story of the Commonwealth Bank* by D. J. Amos

The Story of the Commonwealth Bank

In October, 1911, the Labor Government of Mr. Andrew Fisher introduced a Bill to provide for the establishment of a Commonwealth Bank with power to carry on all the business generally transacted by banks, including that of a savings bank. It was to be administered under the control of one man (called the *Governor* of the Bank), appointed for seven years. The Bank was to have power to raise a capital of \$2 million by the sale of debentures. Debentures are a means of financing companies through fixed-interest loans secured against company assets. The security in this case would be the national credit, and the profits were to be equally divided into two funds - a reserve fund, to meet any liabilities incurred by the Bank, and a redemption fund, to redeem the debentures or other stock issued by the Bank in order to obtain its capital afterwards, this half of the profits could be used to reduce the National Debt.

The intention of the Bill was to make the national credit available to anyone with appropriate security to offer. It would reduce the charges made on overdrafts, bills of exchange, and current accounts by the private banks; it would provide a safe investment for savings and would help in the reduction of the public indebtedness. As soon as the Bank was firmly established, it was

proposed to entrust to it the currency note issue, the profits on which would be paid into the general revenue of the Commonwealth. From the start it was to be the Bank of the Commonwealth Government.

The Bill, in spite of bitter opposition, passed through Parliament practically without amendment and became law.

In June 1912, Mr. (afterwards Sir) Denison Miller, a prominent official of the Bank of New South Wales, resigned his position and was appointed Governor of the Commonwealth Bank. He issued no debentures, but opened savings banks throughout Australia, and used the money he obtained in this way as his capital. He thus avoided being indebted and having to pay interest to anybody but his depositors.

The Bank was not opened for general business until January of the next year, when in one day, the Commonwealth Government transferred \$4 million from private banks to the Commonwealth Bank, without causing any financial disturbance, the cheques being simply cleared through the exchanges *in the ordinary way*. Sir Denison Miller's idea was to make the Bank both a Government Bank and Savings Bank, and for the time being, to enter as little as possible into any sort of competition with the private banks. Nevertheless, he forced them to practically abolish their charges on current accounts, and to keep their charges on loans and overdrafts within reasonable limits.

At the official opening of the Commonwealth Bank in 1912, William Morris Hughes, the man who later became Australian Prime Minister said "The Bank stands here today as the outward and visible sign of the wealth and substance of the whole people. It is indeed Australia commercially translated in the terms of money. It is the symbol of our wealth; it will stand as long as we stand. Of its solvency there can be no doubt while the race that made Australia stands."

In 1921 Sir Denison Miller was reported in the Australian press as saying "The whole of the resources of Australia are at the back of this bank, and so strong is this Commonwealth Bank that whatever the Australian people can intelligently conceive in their minds and loyally support, that can be done."

Richard Talbot